

Briefs

Specialty Crops**Cutbacks in Potato Acreage Likely in 2001**

Record-high U.S. potato stocks and a corresponding drop in grower prices are prompting growers to plant fewer acres this year. To what extent growers will cut back remains in question, as they evaluate market potential for alternative crops such as dry beans, wheat, sugar beets, and soybeans. While some potato industry groups and representatives are urging growers to cut acreage by as much as 10-15 percent, growers will shift significant acreage away from potatoes only if alternative crops show a clear economic advantage. Based on expected relative returns as of early February, growers may decrease potato acreage by as little as 2 to 5 percent.

A record harvest last fall (471 million cwt of potatoes) accounts for the current abundance of spuds. A combination of increased acres harvested (up 3 percent from fall 1999) and record yields (up 7 percent) pushed U.S. potato production for the year to nearly 516 million cwt (up 8 percent from 1999 and 3 percent above the 1996 record). Adding pressure to oversupply is a record Canadian potato crop of 101 million cwt.

From October through December, grower prices averaged about 15 to 20 percent below those of the same period a year ago. While prices contracted with french fry manufacturers prior to the growing season limited the decline for processing potatoes to less than 10 percent, fresh potato prices fell an average of 31 percent. Average retail prices for fresh potatoes were down 9 percent in October-December from a year earlier, responding to grower prices in the typical pattern. (Retail prices typically do not change as much as grower prices from year to year because some key components of retail prices, such as marketing and transport cost, are independent of grower costs.)

Retail prices for processed potato products such as french fries have not reflected the significant decrease in grower

prices. Although the cost of raw potatoes to processors fell, average retail prices for frozen french fries for the October-December period actually increased by 2 percent over the same period in 1999. A significant increase in the cost of energy to run processing facilities in the winter of 2000/01 accounts for the rise. In fact, spiraling energy costs led at least two potato dehydrating facilities to suspend operations temporarily.

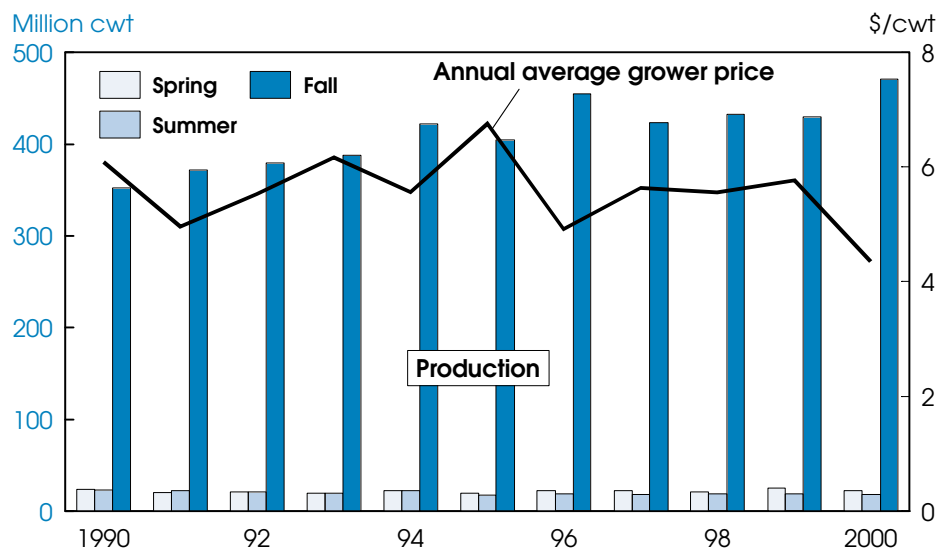
Despite rising energy costs, most frozen potato processors have used the abundant supply of low-cost raw potatoes to boost inventories of frozen potato products. Their stocks on February 1 were 1.1 million lbs, up 2 percent from last year. Potatoes used for processing this season through February 1 hit a record-high 113 million cwt, up 4 percent from last year and 1 percent above the 1996 record.

Despite heavy use by processors, stocks of fresh potatoes from last fall's crop

remained record-high on February 1, an abundance that has growers worried. If energy costs remain high, processing use may slow, and last year's supply could carry over into this fall's harvest. At that point, another large fall crop would probably push grower prices even lower next year.

Hoping to nip that possibility in the bud, the Potato Growers of Idaho created the Potato Management Company (PMC), a marketing cooperative that intends to remove some of the fall 2000 potatoes from the supply chain to raise grower prices. The company is buying potatoes from member growers for a nominal fee and disposing of them (primarily by dumping on fields and donating to charity). Participation in the plan is voluntary and is not limited to Idaho growers. The hope is that market prices for the remaining potatoes rise enough to more than offset the revenue lost from the dumped potatoes. PMC's success in pushing up prices for growers depends entirely on how many potatoes it is able to remove from the market. Participating growers will pay a membership fee to PMC to administer the program.

Outside the U.S., rising demand for U.S. potatoes and potato products is expected

U.S. Potato Prices Down in 2000 as Crop Reaches Record

2000 forecast. Excludes small production in winter (January through March). Production seasons: spring (April-June), summer (July through mid-September), fall (September through mid-November).

Economic Research Service, USDA

Imports of Canadian Fries Continue to Rise

Demand for frozen french fries has increased steadily over the past three decades. U.S. per capita consumption of frozen potato products (primarily french fries) has increased by 30 percent since 1990 (by over 70 percent since 1980 and 113 percent since 1970).

While the U.S. potato processing industry has expanded tremendously during this time, the Canadian industry has also experienced rapid growth, particularly in the past decade. Canadian fries are destined mainly for U.S. fast-food restaurants, with fry imports from Canada increasing an average of 25 percent per year since 1989. Canadian-produced fries currently account for about 13 percent of all fries consumed in the U.S., up from about 2 percent in 1989. In 2000, total fry imports from Canada are forecast at 1.1 billion pounds, 16 percent higher than 1999.

The Canadian/U.S. exchange rate has been a significant factor in the rapid increase in Canadian production capacity and exports to the U.S. over the past decade. The value of the Canadian dollar has fallen 20 percent relative to the U.S. dollar since 1989, enhancing the price competitiveness of Canadian products. And although the value of the Canadian dollar is expected to increase somewhat over the next several years, Canadian processing capacity is still expanding and will likely result in increasing exports of fries to the U.S.

to continue. In the first 2 months of the 2000/01 marketing year (October and November), fresh potato exports were up

9 percent from a year earlier, and exports of frozen french fries were up 14 percent. Reduced potato output in Europe last fall

should mean the U.S. can maintain a competitive edge in foreign markets for frozen french fries this year, particularly in Asia and the Pacific Rim. A drop in U.S. interest rates could weaken the dollar relative to many foreign currencies, which would boost these exports even further.

Despite strong foreign demand, the production and price outlook for potatoes in 2001 remains uncertain. A 3-percent cut in potato acreage, combined with average acreage abandonment and trend yields, would bring total production for the year to about 476 million cwt, near the 5-year average and down 8 percent from 2000. But another exceptional growing season like last year's could easily push production well over 500 million cwt again.

USDA's first official estimate of planted acreage for spring potatoes will be released in April, and the summer and fall acreage estimates will be released in July.



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